



Fact Sheet: TAX INCREMENT FINANCING

WHAT IS TAX INCREMENT FINANCING?

Tax Increment Financing is a tool that local governments can use to publicly finance needed structural improvements and enhanced infrastructure within a defined area. The laws governing tax increment financing are found in Chapter 311 of the Texas Tax Code (state law). Only a city may initiate tax increment financing, but once a city has begun the process, other taxing entities such as counties, special districts, hospital districts and community college districts may choose to participate. The cost of improvements to the area is repaid by the contributions of future tax revenues by each participating taxing unit that levies taxes against the property. Each taxing unit can decide to dedicate all or a part of the tax revenue that is attributable to the increase of property values due to the improvements with the reinvestment zone. The additional tax revenue that is received from the affected property is referred to as the tax increment. The area designated by the city for improvement is called a tax increment reinvestment zone ("**TIRZ**").

WHAT IS THE CRITERIA FOR CREATING A TIRZ?

An area may be considered for tax increment financing only if it meets at least one of the three following criteria:

- The area's present condition must substantially impair the city's growth, retard the provision of housing, or constitute an economic or social liability to the public health safety morals, or welfare. Further this condition must exist because of the presence of one or more of the following conditions: A substantial number of substandard or deteriorating structures, inadequate sidewalks or street layout, faulty lot layouts, unsanitary or unsafe conditions, a tax or special assessment delinquency that exceeds the fair market value of the land; defective or unusual conditions of title, or conditions that endanger life or property by fire or other cause; or
- The area is predominantly open, and because of obsolete platting, deteriorating structures, or other factors, it substantially impairs the growth of the city; or
- The area is adjacent to a "federally assisted new community" as defined in Section 311.05(b) of the Tax Code.

TEN STEPS TO CREATE A TIRZ

STEP ONE

City prepares a preliminary reinvestment zone financing plan.

STEP TWO

City provides sixty (60) days advance notice of intent to create TIRZ to other entities that levy taxes within the proposed area.

STEP THREE

The other taxing units designate a representative to meet with the City to discuss project plans.

STEP FOUR

The City must provide a formal presentation to the governing body of each county and school district that levies real property taxes within the proposed TIRZ.

STEP FIVE	The City holds a public hearing on the creation of the TIRZ.
STEP SIX	After the public hearing, the City may, by ordinance designate a contiguous area with the City as a TIRZ.
STEP SEVEN	After the ordinance is adopted to create the TIRZ the board of directors of the zone must prepare both a project plan and reinvestment zone financing plan and present it to the City's governing body for approval.
STEP EIGHT	After the project plan and financing plan are approved by the City's governing body, the other taxing entities contract with the city regarding the percentage of their tax increment they are willing to dedicate to the tax increment fund.
STEP NINE	The board of directors of the TIRZ makes recommendations to the City's governing body regarding implementation of the tax increment financing.
STEP TEN	The City must submit annual reports to the chief executive officer of each entity that levies taxes on property within the zone.

For more information please refer to the Texas Tax Code and a publication prepared by the Office of the Texas Attorney General titled "Handbook on Economic Development Laws for Texas Cities" that can be found at <http://www.oag.state.tx.us/newspubs/publications>.